

# **Virginia Senate Manufacturing Development Committee Testimony**

## **CORPORATE TAX REFORM**

### **1) Property tax:**

- a) Exempt new investments
  - i) Assembly considered during 2011 session but it did not pass due to issues over how the revenue would be replaced
- b) Reduce other state taxes for property taxes paid
  - i) Michigan allows a refundable credit of 35% of property taxes paid by manufacturers against the state income tax
- c) Remove old assets from taxation (> 20 years old)

### **2) Sales & use tax:**

- a) Improve the definition of exempt machinery & equipment as state auditors make it difficult to actually obtain the exemption.
  - i) The semiconductor industry in Virginia rewrote the law on their exemptions for the same reason (a copy of the different laws is available).
- b) Improve audit policy to remove an error from a statistical sample where the purchaser paid self-assessed tax on it.
  - i) The state leaves this in, effectively collecting tax a second time.
  - ii) This results in an artificially high assessment against taxpayers rather than the goal of determining the fair amount to be paid.

### **3) Corporate income tax:**

- a) Decrease the corporate income tax rate to 5%.
- b) Allow for easier changes between the three methods of corporate income taxation in the state – consolidation, combination or separate filing
- c) Allow single sales factor election to be fully used in 2010, instead of transitioning through 2014.
  - i) Many other states already allow this for manufacturers, including Georgia & South Carolina.
- d) Allow 100% deduction of the federal domestic production activity deduction (currently the state allows a deduction of 2/3 of the federal amount)
- e) Proposals have been made to eliminate the state corporate income tax and substitute a gross receipts tax instead.
  - i) Large manufacturers, such as MWV, would significantly increase cash payments to the state depending on the methodology used.
  - ii) Start-up and small manufacturers would pay tax even though losing money

#### **4) Credits & incentives:**

- a) Make credits usable to all businesses:
  - i) Make them refundable
  - ii) Allow offsets against other taxes such as payroll withholding
    - (1) Virginia already allowed some limited offsets on a coalfield enhancement tax credit against tire taxes and sales tax paid (not sales tax collected from customers)
    - (2) Virginia also allows some credits to be transferred and / or sold (biodiesel fuel and land preservation credits). However, this is dependent on finding a willing buyer.
- b) Credits the state should consider enacting or broadening:
  - i) Investment tax credits
  - ii) Research & development
    - (1) Bill passed in 2011 but credit is limited to \$25k with possibility of later increased payout dependent on how many companies claim it.
  - iii) Headquarters credit – dropping the job requirement as well as burdensome documentation & certification
  - iv) Environmental credits – expansion of definition to include more
  - v) Green energy / sustainability / energy efficiency
- c) Portion of increases in revenues above a certain amount could be used for targeted tax credits to increase or retain businesses in Virginia

## **5) Tax administration:**

- a) Establish an independent forum for settling tax disputes, whereby taxpayers can appeal to a court that is trained in handling taxes (a sample statute from the American Bar Association is available).
  - i) It removes politics from tax controversy because currently the state courts hear taxes that impact local budgets
  - ii) North Carolina used an existing court to do this
- b) Virginia requires a bond to be filed before an appeal can be filed, but does not enforce this. This should be removed from the books.

## **6) Payroll taxes (including taxes on executives):**

- a. Eliminate unemployment taxes
  - i. On new hires
  - ii. For increased employment
  - iii. For hiring unemployed workers
  - iv. For relocating to the state

## **7) BPOL Tax:**

- a. Eliminate the BPOL license tax or broaden the definition of manufacturing to exempt store fronts at the place of manufacture

## **ENERGY POLICY**

### **Virginia energy rates must remain affordable and produce reliable energy:**

- a. Virginia should institute a requirement to produce an economic rate impact report on all proposed legislative mandates on energy producers and providers prior to voting on any measure. This will insure that legislators understand the impact of their votes on utility rates and consumers.
- b. Virginia should not pit utilities against private sector companies for raw materials as fuel through renewable portfolio standard mandates.
- c. Encourage CHP projects for high energy users.

## **WORKFORCE DEVELOPMENT**

**Focus on STEM jobs.**

- a. Operator up skilling, skilled technicians, engineers**
- b. Talent development, retention, and management are priorities.**
- c. Private company partnerships with local technical schools, universities, and community colleges**